



Treasury Inspector General for Tax Administration

THE INTERNAL REVENUE SERVICE NEEDS TO IMPROVE PROCEDURES TO IDENTIFY NONCOMPLIANCE WITH THE REPORTING REQUIREMENTS FOR NONCASH CHARITABLE CONTRIBUTIONS

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Highlights

Highlights of Report Number: 2007-30-049 to the
Internal Revenue Service Deputy Commissioner for
Services and Enforcement

IMPACT ON TAXPAYERS

In recent years, the legitimacy of the values placed on some noncash donations, such as clothing, has been questioned by the IRS and Congress. As a result, Congress passed legislation that created additional reporting requirements to substantiate the value of some of these donations. Individual taxpayers are required to file a Noncash Charitable Contributions (Form 8283) if their charitable deductions claimed for noncash contributions exceed \$500. The amount of substantiation to be provided with the Form increases as the value of the deduction increases. Currently, taxpayers who may not be entitled to deductions for noncash contributions are reducing their tax liabilities and may receive refunds regardless of whether they provide the required substantiation. This could result in a loss of revenue to the Federal Government and inequitable treatment of taxpayers.

WHY TIGTA DID THE AUDIT

This audit was conducted as part of TIGTA's coverage of the implementation of Tax Bill Legislation.

Provision 883 (Increased Reporting for Noncash Charitable Contributions) of the American Jobs Creation Act of 2004 created additional reporting requirements for individual taxpayers making noncash charitable contributions. The objective of the review was to evaluate the implementation of Provision 883 and the processing of individual income tax returns reporting deductions for noncash contributions.

WHAT TIGTA FOUND

The IRS revised tax forms and publications and provided training and information to employees to facilitate implementation of the new requirements for claiming noncash charitable contributions. However, taxpayers and tax practitioners still need to be better educated concerning requirements for claiming charitable contributions. Also, additional procedures need to be established to identify noncompliance with charitable contribution requirements during returns processing. Better education of taxpayers and preparers and additional returns processing procedures will enable the IRS to address potential noncompliance, as Congress intended in its legislation. TIGTA estimates 101,236 taxpayers could have claimed unsubstantiated noncash contributions totaling approximately \$1.8 billion for the period January 15 through September 21, 2006.

WHAT TIGTA RECOMMENDED

TIGTA recommended (1) the Commissioner, Large and Mid-Size Business Division, coordinate with the other affected operating divisions to develop a comprehensive outreach plan on the reporting requirements for noncash charitable contributions for affected taxpayers and tax practitioners and (2) the Commissioner, Small Business/Self-Employed Division, and the Commissioner, Wage and Investment Division, develop procedures to correspond with taxpayers to obtain missing Forms 8283 and supporting documentation.

In their response to the report, IRS officials agreed with the first recommendation to supplement their outreach plans and partially agreed with the second recommendation. The IRS plans to continue to correspond with taxpayers who claim noncash charitable contributions over a specific dollar threshold and whose Forms 8283 are missing from the returns. In addition, the IRS agreed to use a specific indicator to identify for the Examination function returns claiming noncash contributions over the same dollar threshold but with no attached Forms 8283.

TIGTA believes the IRS' plan for taking action only when the deduction exceeds the established threshold and only when the Form 8283 is missing (rather than incomplete) is not in keeping with Congress' intent when passing legislation related to this issue.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730049fr.pdf>.